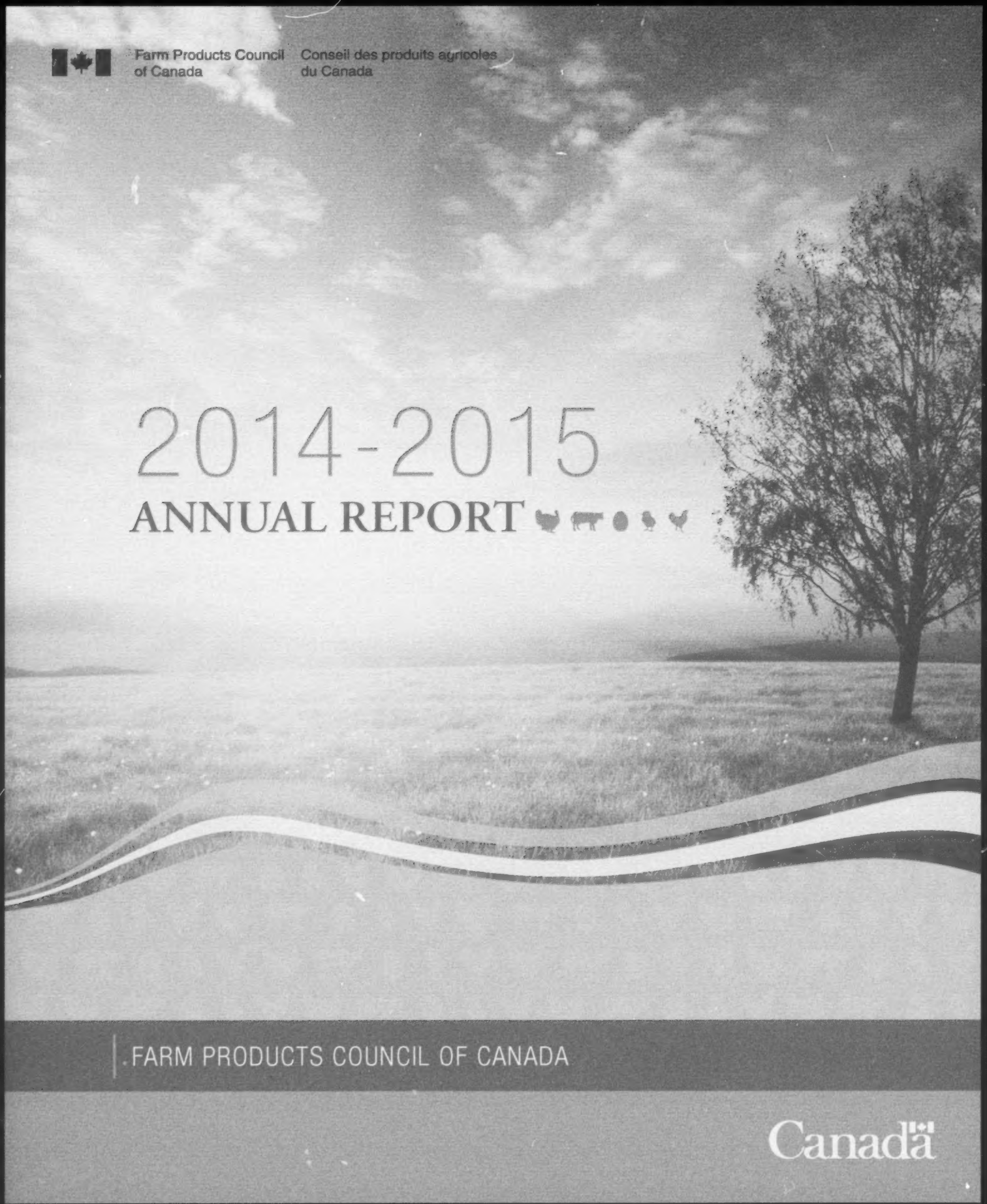
Farm Products Council of Canada
Conseil des produits agricoles du Canada
2014-2015
ANNUAL REPORT
FARM PRODUCTS COUNCIL OF CANADA
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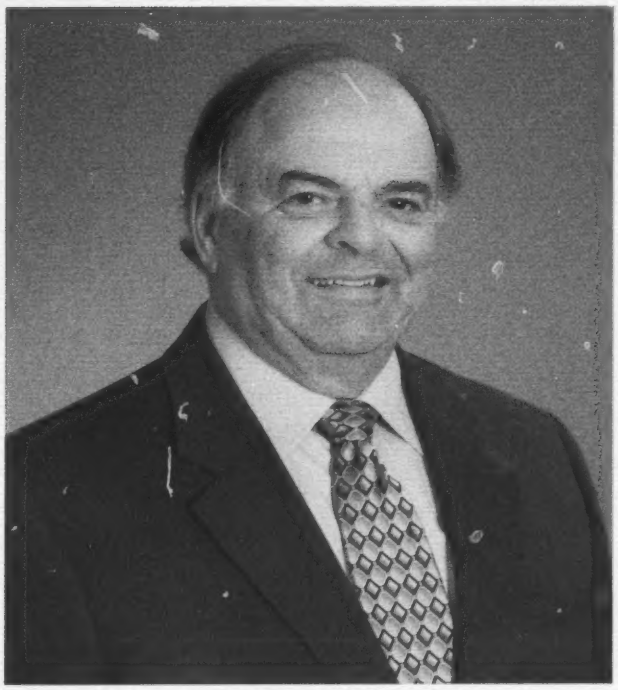
Chairman's Message



For the Farm Products Council of Canada (FPCC), 2014-2015 was a year of remarkable achievements.

Previous years' strategic gains were consolidated and foundations laid for new initiatives under FPCC's 2015-2018 Strategic Plan. These achievements were all the more notable given the fiscal year began on a note of change and mild disruption arising from staff turnover, unresolved questions about the possibility of a new marketing agency for pullets, and concerns about Alberta's lingering disengagement from the Federal-Provincial Agreement (FPA) on chicken.

Concerns about Alberta's participation in the supply management system were in large part allayed as all 10 provincial commodity boards reached a long-term allocation agreement for chicken. Other issues were also successfully addressed. Recently appointed Council members and new staff found their footing as the FPCC's three-year (2012-2015) Strategic Plan drew to a close. The Strategic Plan for 2015-2018 was developed and shared with FPCC's stakeholders for their consideration and input.

Through these accomplishments, the agencies and FPCC were able to pilot supply management systems back to relative normalcy. However, perfect stability is neither the natural state nor FPCC's aim for the system as its integrity has always depended on its adaptability. A joint approach to long-term allocation in the chicken sector can only be a positive but the agreement has to be finalized and put into operation. In its discussions with the Egg Farmers of Canada (EFC), the FPCC emphasized the need for imaginative and determined efforts to more effectively calibrate the natural overrun in egg production. Which is to say, there is no time for any agency to rest on its laurels, and the same goes for the FPCC.

The conclusion of the 2014-2015 fiscal year marked the end of three years of hard work by Council members and FPCC staff on our sunsetting strategic plan and an opportunity for us to take stock of FPCC's achievements. As I look back on my five years as Chairman, it is clear that many of FPCC's successes have come from enhanced collaboration among FPCC, the agencies and provincial stakeholders. Council members and FPCC staff have developed their industry knowledge and oversight capacity by deepening and extending their contacts with stakeholders throughout Canada's supply management system from the individual producer, to processors, provincial supervisory boards, Agriculture and Agri-Food Canada, consumers, and the concerned public. The FPCC takes pride in encouraging better coordination across the supply management system.

The FPCC has consistently worked to build consensus on the need to bring greater transparency to the system, especially through standardized and more accurate reporting by agencies. Continual improvement in assessment and reporting practices provides clarity for decision-makers and the public on the workings of supply management, as well as of promotion and research systems. This clarity ensures public trust in FPCC's monitoring and oversight of the system and the agencies.

Year by year, the FPCC has developed tools to assist the agencies in their work, whether in allocation-setting (by developing guidelines for adopting comparative advantage in production), in sharing new guidelines for cost of production (CoP) monitoring in 2013-2014 with stakeholders, or recently in launching discussions for modernizing and strengthening the reporting practices to Parliament by agencies.

FPCC's CoP monitoring guidelines need not remain theory. They can be adopted and integrated into the day-to-day work of agencies. A major aim for the FPCC is to work with agencies and their partners in building a broad agreement on the appropriate way to measure and represent production costs. As a first step, the FPCC hopes to collaborate with EFC in testing the usefulness of the guidelines. This task need not be left exclusively to the FPCC and agencies. If the system is to be transparent, provinces must also work together to improve CoP reporting.

Interprovincial collaboration was, of course, nowhere more needed than in the chicken industry, and FPCC's constant advocacy of deeper and more effective collaboration did not go unheard. The Chicken Farmers of Canada (CFC) deserve full praise for helping provinces come together on a memorandum of understanding (MOU) on a new long-term allocation agreement for chicken. The agreement promises to overcome interprovincial differences about the fairness of the allocation process through the adoption of a formula that integrates a new measure of comparative advantage. While the agreement has yet to receive the final consent of all provinces, the MOU is cause for celebration, not only as an achievement in its own right, but because it paves the way for an eventual reintegration of Alberta into the FPA for chicken. It is also a harbinger of additional important work. One result of the Long-term Chicken Allocation Agreement is that CFC has undertaken to make related amendments to Schedule "B" of the FPA (the Operating Agreement). These amendments will require not only the unanimous consent of provincial supervisory boards, provincial commodity boards, and CFC, but also FPCC's assent that they are consistent with the *Farm Products Agencies Act* (FPAA).

Another outstanding issue – the Pullet Growers of Canada's request for the establishment of a new marketing agency – was put to rest. The Pullet Growers' application was ultimately turned down. However, the process and effort of coordinating and submitting the request to the Minister has brought pullet growers further together as a force for jointly developing solutions for their industry. By the same token, responding to the pullet growers' request compelled the FPCC to revive and renew its processes for hearing and processing requests for the establishment of marketing boards.

A similar process of re-education for the FPCC and streamlining of public hearing processes is one of many beneficial results of the application by Canada's raspberry and strawberry growers to set up Promotion and Research Agencies (PRAs). The potential of the PRA model cannot be underestimated. Intra-industry collaboration in innovation and market development often determines the competitiveness of individual firms. By reinforcing competitiveness, PRAs help to establish an environment that leads to increased sales and better products.

In view of these many achievements, the FPCC has had a productive year. But challenges remain on the horizon. For instance, one task facing the FPCC in the coming year will be to help EFC devise a new formula for quota allocation that incorporates a forward-looking element. As it stands, EFC's Quota Allocation Committee's (QAC) formula determines future allocations by extrapolating egg consumption over the previous three years. This approach tends to lead to market shortages in years of high demand and market surpluses when demand is contracting, which is clearly inconsistent with a system established to ensure orderly marketing. In light of the FPCC's 2015-2018 strategic priority of ensuring that allocation-setting mechanisms are beneficial to all Canadians, the FPCC will support EFC on a number of fronts in taking the necessary steps to calibrate distribution of quota according to market demand.

There may also be ongoing repercussions from the avian influenza (AI) outbreak in British Columbia that generated a supply shock in the poultry industries in 2014-2015. In response to the December 2014 outbreak, B.C. met consumer demand in the province during the crucial festive period by increasing production in the province and raising imports from other provinces. Then, early in 2015, B.C. leased quota to producers in other provinces to ensure the requisite supply of poultry products until B.C.'s full productive capacity could return to operation. These interprovincial adjustments -- the ability to allow provinces to share quota as needed -- demonstrates that the supply management system has the necessary flexibility to ensure Canadians remain served with a stable supply of quality poultry products. As of the release of this report, and thanks to provincial quarantining of affected areas and other responses by provincial poultry marketing boards and the Canadian Food Inspection Agency, the outbreak appears to be abating. However, vigilance is still required. Both the agencies and FPCC will continue to monitor and oversee the appropriate setting of allocation to restore flocks to pre-outbreak levels.

This responsiveness of the system speaks to the efficiency of both the agencies and the FPCC. Our supply management systems are managed by the agencies so as to be able to respond to regional or national contingencies. Responses to crisis such as the AI outbreak succeed thanks to effective industry contingency planning, such as that laid out in CFC's 2014-2018 Strategic Plan. In turn, the reliability of agencies' annual and strategic plans is safeguarded by the critical evaluation and careful scrutiny of Council members and FPCC staff. FPCC's oversight and efficacy as a regulator, helps maintain the integrity of supply management in Canada.

Council members, assisted by FPCC staff, brought their knowledge and experience to bear in streamlining FPCC's efficacy in considering and rendering decisions on key supply management questions, and in adjudicating any disputes among players in the systems. This record of efficiency has been enhanced by the recent appointment of a new member to FPCC with immense experience in the agriculture and agri-food sector, Chantelle Donahue.

Chantelle is co-owner of a grain and oilseed farm in Biggar, Saskatchewan, vice-president of Corporate Affairs for Cargill Canada; chair of the Canada Grains Council and the Western Grain Elevator Association Management Committee; co-chair of Agriculture and Agri-Food Canada's Grains Roundtable and the Canadian Roundtable for Sustainable Crops; and vice-chair of the Barley Council of Canada. She is deeply involved as a leader in the beef industry. This scratches the surface of her many important contributions to agriculture in Canada. As Council Chairman, it is a pleasure and an honour to work with someone of her considerable knowledge and achievements.

I would also like to acknowledge the departure of long-time Council member John Griffin, who has decided to reorient his time and energy toward his farming business and opportunities for public service contributions within his province. John's experience and wise advice have been a constant in FPCC's oversight of the supply management, as well as the promotion and research systems since my first day at FPCC. His many contributions will continue to serve as an inspiration to Council members and FPCC staff.

Given the excellence of Council membership, and the successful example of the 2012-2015 Strategic Plan, it is with great enthusiasm and confidence that I look forward to the implementation of the FPCC's new Strategic Plan. Canadians will continue to be assured of a stable and safe supply of poultry and egg products.

Sincerely,

Laurent Pellerin
Chairman

Bringing Good Management to Market

Front row, left to right: *Mike Pickard, Debbie Etsell* and *Brent Montgomery.* Back row, left to right: *Tim O'Connor, Laurent Pellerin* and *John Griffin.*

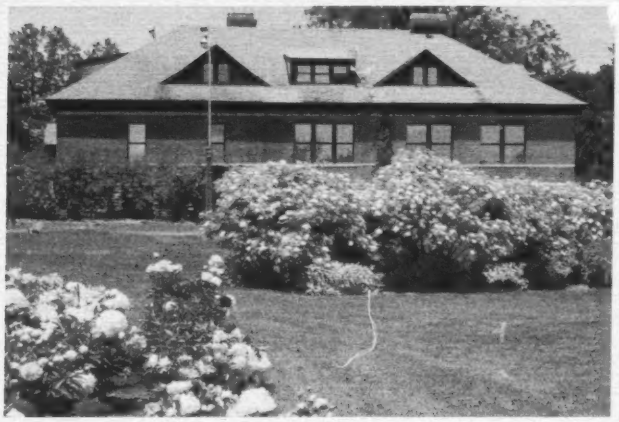
The FPCC helps to ensure that all Canadians have affordable and continuous access to the foods they need while maintaining fair market prices for farmers.

The FPCC is a public interest oversight body that reports to the Parliament of Canada through the Minister of Agriculture and Agri-Food. It oversees the national supply management system for poultry and eggs, and supervises the activities of national promotion and research agencies for farm products. It provides the Minister with advice and recommendations, collaborates with provincial supervisory boards, and works with other federal organizations.

The FPCC administers two federal laws, the *Farm Products Agencies Act* (FPAA) and the *Agricultural Products Marketing Act* (APMA). The FPAA provides for the creation and oversight both of national marketing agencies, which are not subject to the *Competition Act*, and of promotion and research agencies. The APMA authorizes the delegation of federal authorities over interprovincial and export trade to provincial commodity boards.

The FPCC is also responsible for adjudicating complaints lodged by any parties which may deem themselves unfairly affected by a decision of one of five agencies – the Egg Farmers of Canada (EFC), the Chicken Farmers of Canada (CFC), the Turkey Farmers of Canada (TFC), the Canadian Hatching Egg Producers (CHEP) or Canada Beef (CB).

FPCC Profile



Mission

The FPCC's mission is to work with its partners to ensure that the supply management and promotion-research systems have the flexibility needed to respond to current and future challenges in a flexible, accountable and transparent manner.

Vision

FPCC is recognized by its partners for its contribution to transparent and efficient supply management and promotion-research systems.

Values

Collaboration: FPCC is committed to working constructively with its partners in a manner that is reflective of the spirit in which the supply management and promotion-research systems were created.

Innovation: FPCC is committed to fostering innovative thinking so that the supply management and promotion-research systems continuously improve their efficiency and have the flexibility needed to address current and future challenges.

Fairness and Respect: FPCC is committed to conducting its operations in a manner that recognizes the contribution and respective jurisdictions of all its partners within the supply management and promotion-research systems and to operating without bias or favouritism.

Transparency: FPCC is committed to conducting its operations in an open and transparent manner and to fostering this throughout the supply management and promotion-research systems.

Duties, Powers and Responsibilities

The FPCC's duties, powers and responsibilities are defined in the FPAA as follows:

- advise the Minister on all matters relating to the establishment and operation of agencies under the FPAA with a view to maintaining and promoting efficient and competitive industries;
- review the agencies' operations with a view to ensuring that they carry them on according to their objects;
- approve quota regulations and levies orders, licensing regulations and certain by-law provisions;
- work with agencies in promoting more effective marketing of farm products;
- collaborate and maintain relationships with supervisory boards and the governments of all provinces and territories in matters related to the operations of the national agencies, as well as when new agencies are proposed;

- investigate and take action, within its powers, on any complaints related to national agency decisions, and;

- hold public hearings when necessary, such as when new agencies are proposed.

The FPCC is also responsible for ensuring that the national agencies meet the requirements of the *Statutory Instruments Act*. In addition, it has been tasked with administering the APMA. This Act allows the federal government to delegate its authorities over interprovincial and export trade to provincial commodity boards on a wide range of farm products.

Beyond these responsibilities, the Chairman is also responsible for the administration of the FPCC, as Deputy Head of this public interest oversight body operating within the federal government. The FPCC's Chairman is guided in this regard by a set of government statutes, policies and procedures that must be followed. The Chairman ensures due process in all of the FPCC's operational activities and maintains relationships with several key government departments and central agencies, such as the Treasury Board of Canada Secretariat, the Privy Council Office, the Department of Justice, the Office of the Auditor General of Canada, and the Public Service Commission of Canada.

The FPCC's Chairman also works closely with heads of provincial supervisory boards across the country. He participates in their coordinating body, the National Association of Agri-Food Supervisory Agencies, makes presentations at provincial meetings, and engages provincial government counterparts in advancing the supply managed sectors and their issues.

Within this framework, the Minister of Agriculture and Agri-Food provides the Chairman with a written mandate directing the work to be done and his expectations for the FPCC.

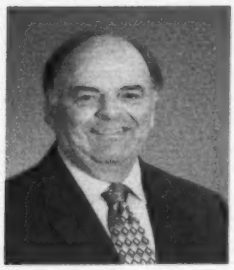
In carrying out its responsibilities, the FPCC, through its Chairman, Council members and FPCC management, works on its role of oversight of national agencies, complaints and public hearings. The Chairman and staff also maintain relationships with federal and provincial bodies and ensure that the FPCC meets federal government requirements relating to performance and financial matters. Ultimately, the FPCC is accountable to the Minister, Parliament and to Canadians.

FPCC Governance

Left to right: *Mike Pickard, Tim O'Connor, John Griffin, Debbie Etsell, Mark Kramer (Agriculture and Agri-Food Canada), Bill Edwardson, Reg Milne, Maguessa Morel-Laforce, Brent Montgomery* and *Laurent Pellerin.*

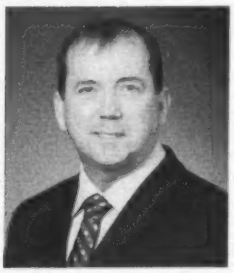
The Council is composed of at least three members, and may have up to six. At least half of those members must be primary producers at the time of their appointment. Members are appointed by Cabinet for terms of varying length. The Chairman is the only full-time Council member.

Members



Laurent Pellerin was a hog and cereal producer in Bécancour, Québec, since 1972. In addition to holding a Bachelor's degree in group management, he was President of the Canadian Federation of Agriculture (2008-2010), the Union des producteurs agricoles (1993-2007), the Fédération des producteurs de porcs du Québec (1985-1993), and Agricord, a network of agricultural associations dedicated to international development. In 2005, he was awarded the Ordre National du Québec in recognition of his contributions to agriculture.

Brent Montgomery, Vice-Chairman, owns a turkey farm in Saint-Gabriel-de-Valcartier, Quebec, in partnership with his brother and is co-owner of a turkey hatchery in Loretteville, Quebec. He has occupied numerous positions in the agricultural field, including that of Chair of the Turkey Farmers of Canada from 2003 to 2007. Also a former teacher and school principal, Mr. Montgomery has been Mayor of the Municipality of Saint-Gabriel-de-Valcartier since 1988.



John Griffin has since 2000 been President of W.P. Griffin Inc., a family-owned and operated farming business in Elmsdale, Prince Edward Island. The enterprise is organized into two divisions: the farming operation, which grows potatoes, grain and hay; and the potato packaging operation, which specializes in food services, consumer packs, and ready-to-serve BBQ and microwave-ready potatoes. Mr. Griffin is also on the Board of the World Potato Congress.

Tim O'Connor obtained an Associate Diploma in Agriculture from the University of Guelph in 1982. Mr. O'Connor had a successful career in agriculture as a broiler chicken farmer for 10 years. He now focuses his time working in real-estate as well as a partner in a grain elevator.

Mike Pickard is a resident of Saskatoon, Saskatchewan. Formerly the owner of a broiler chicken operation, Mr. Pickard also served as a Director with the Chicken Farmers of Saskatchewan (2007-2013) as well as the Chicken Farmers of Canada (2008-2013). While with the Chicken Farmers of Canada, his contributions included serving on its Consumer Relations and as its Finance Committees. Originally from Saint John, New Brunswick, he and his wife Jana have three children.

Debbie Etsell has been in the agriculture industry for approximately 25 years. Ms. Etsell is a director with Coligny Hill Farms Ltd., an Abbotsford, British Columbia, farm where she, along with her husband and two sons, currently produces turkeys, hay and wine grapes. Ms. Etsell's passion for agriculture has also led her to work with various farm organizations. She has been with the BC Blueberry Council since 2007 and is currently its Executive Director. Ms. Etsell has also worked for the BC Agriculture Council and the Raspberry Industry Development Council in B.C.

Chantelle Donahue is from Biggar, Saskatchewan where she is co-owner of family grain and oilseed farm. She is also Vice-President of Corporate Affairs for Cargill Limited. Ms. Donahue currently sits on a number of agricultural steering committees, boards and associations. She is presently Chair, Co-Chair and Vice-Chair on several grain associations and Canadian roundtables. Ms. Donahue holds a Bachelor of Commerce (Cooperative Program) from the University of Alberta.

FPCC staff

Front row, left to right: *Laurent Pellerin, Nathalie Vanasse* and *Marc Chamaillard.* Back row, left to right: *Pierre Bigras, Lise Turcotte, Mike Iwaskow, Maguessa Morel-Laforce, Dominique Levesque, Bill Edwardson, Steve Welsh, Tom Bergbusch, Nancy Fournier, Joanne Forget-Chayko, Hélène Devost, Chantal Turcotte, Reg Milne, Mélanie Pruneau, Lisette Wathier, Lise Leduc* and *Chantal Lafontaine.*

Monitoring Activities of Agencies

Regulatory Framework

Part II of the FPAA provides that the Governor in Council (GIC) may, by proclamation, establish an agency where it is satisfied that a majority of producers in Canada favour such action. A proclamation is a federal regulation that outlines how the agency is to be constituted (i.e., membership, means of appointment, location of the agency's head office, etc.).

The marketing plan, which the agency is authorized to implement, is set out in a schedule to the proclamation. Typically, the marketing plan would describe the quota, licensing and levy systems to be implemented, provisions for review of the marketing plan, and other general items specific to the regulated commodity in question.

The FPAA allows the Minister of Agriculture and Agri-Food, with GIC (Cabinet) approval, to enter into an agreement with any province or territory so that an agency can perform functions on behalf of that province (i.e., receive delegated authority from a province). This is known as a Federal-Provincial Agreement (FPA).[1] In addition, most provincial legislation requires an agreement to delegate authority from the national agency to the provincial commodity boards.

An FPA typically has schedules attached, including the proclamation and national marketing plan, provincial marketing plans and the original proposal used during the public hearing process.

Signatories to an FPA include the federal and provincial ministers of agriculture, the FPCC (for eggs and turkey), provincial supervisory bodies, provincial commodity boards and, for all but turkey, the national agency. In Alberta and Quebec, the Ministers of Intergovernmental Affairs are also signatories.

Legally, the FPAA is subordinate to the Constitution, the proclamation and marketing plan are subordinate to the FPAA, and agency orders and regulations are subordinate to the proclamation and marketing plan. Subordinate legal instruments cannot exceed the authority of a superior instrument. For example, an agency cannot derive authority from an FPA that has not been specified in its proclamation.

The FPAA and Powers of National Marketing Agencies

The objects of an agency, as set out in section 21 of the FPAA, are as follows:

a) to promote a strong efficient and competitive production and marketing industry, and;

b) to have due regard to the interest of producers and consumers.

In the pursuit of these goals, agencies are vested, through their proclamations, with the powers set out in section 22 of the FPAA. Examples of powers:

- to undertake and assist in the promotion of the consumption of the regulated product;
- to advertise, promote and do research into new markets;

[1] *The Northwest Territories is a member only of the Egg Farmers of Canada (EFC); the EFC agreement is accordingly referred to as the Federal-Provincial-Territorial Agreement.*

- to set production quotas and collect levies;
- to purchase, lease or otherwise acquire and hold a mortgage of a property, and;
- to invest any money in its possession in securities that are guaranteed by the Government of Canada.

Under section 27 of the FPAA, the agency has an obligation to conduct its operations on a self-sustaining financial basis. Section 29 provides that the accounts and financial transactions of each agency are to be audited annually by an auditor appointed by the GIC and a report made to the agency, FPCC and the Minister of Agriculture and Agri-Food. Pursuant to section 30 of the FPAA, each agency is also required to submit an annual report to FPCC and the Minister. Section 32 of the FPAA provides that any contract, agreement or other arrangement between an agency and any person engaged in the production or marketing of the regulated product is exempt from the *Competition Act*.

The agencies establish, enact and implement regulations for various purposes including setting quota allocations and collecting levies. It is within those designated areas that direct FPCC involvement is necessary since an agency requires statutory authority to implement the terms of its marketing plan.

Each time an agency requests an amendment to an order or regulation, Council members must review the rationale for the amendment. This includes market and financial statistics as well as the agency's budget.

When approving an agency order or regulation, Council members must be satisfied that the order or regulation is both in accordance with and necessary for the implementation of the agency's marketing plan. Agencies typically review their quota allocations and the levy amount on an annual basis. CFC is the exception, as more frequent quota levels requiring Council members' approval are set.

THE EGG AGENCY

The Egg Farmers of Canada

The Egg Farmers of Canada (EFC) is the national agency responsible for the orderly marketing of eggs in Canada. Legally known as the Canadian Egg Marketing Agency, EFC was established in 1972 under the *Farm Products Marketing Agencies Act* (FPMAA) (legally known as the *Farm Products Agencies Act* (FPAA) since 1993) through an agreement of the federal government, provincial agricultural ministers, and table egg producers in member provinces.

EFC is made up of 11 member provinces and territories: British Columbia, Alberta, Northwest Territories, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador. Each member province and territory elects a representative to sit on the agency's Board of Directors. The 16-member Board of Directors also has representatives from other egg industry stakeholders: one appointed by the Consumers' Association of Canada; one by the Canadian Hatchery Federation (CHF); and two by the Canadian Poultry and Egg Processors Council (CPEPC) which respectively represent the egg-grading sector and the processing sector.

EFC's Board of Directors meets five to six times per year to plan and manage egg production and marketing, which includes setting the production quota and the levy requirements for each year to cover EFC's operating costs. This levy is included in the price that consumers pay for eggs. Council members review and consider all proposed amendments to quota regulations and levies order.

Egg Production in Canada

Producers either raise their own pullets until they are 18 to 19 weeks old, or purchase pullets of that age when they become laying hens. Farmers then keep them for about one year, during which time the hens lay eggs on a daily basis. These eggs, known as table eggs, are collected and sent to grading stations before being shipped to wholesalers, retailers, and the hotel, institutional and restaurant trade. As egg production is continuous, while market demand fluctuates seasonally and due to other factors, EFC operates its Industrial Products Program (IPP) to sell off table eggs produced in excess of table demand. Where possible, these surplus eggs are sold as table eggs in other provinces where supplies are short; otherwise they are sold to processing companies as eggs for breaking. These "breaker eggs" are processed and used or sold to other companies for use as ingredients in foods such as bakery products, mayonnaise, frozen omelets, etc. To complement the IPP, several provinces administer an Egg for Processing quota, which is used to supply processing companies within a province. EFC also administers two smaller quotas, one for Export Market Development, and the other for eggs used in the production of vaccines in Canada. All eggs surplus to those needed for vaccine production are sent directly to egg-processing plants.

FPCC's Work with EFC

Amendments to Levies Order

EFC is funded through a levy raised on each egg produced by a registered egg producer. The number of laying hens per producer is allocated based on the national rate-of-lay number determined by EFC. Actual collection of (combined provincial and national) levies is handled by provincial commodity boards, according to distinct rules in each province. Commodity boards transfer the national portion of monies collected to EFC.

Revenues from EFC's total levy are administered through a number of separate funds. One, the Administration Fund, is used to provision EFC's day-to-day work. Another is the Restricted Research Fund. The third is the Risk Management Fund for producers.

The final and largest fund is the Pooled Income Fund (PIF), which is used for EFC's purchase of excess eggs from provincial commodity boards under the IPP. Grading stations sell excess eggs to provincial or territorial commodity boards. EFC buys these excess eggs and sells them to egg processors based on U.S. processor prices. As U.S. processor prices are generally lower than prices set by provincial commodity boards, EFC charges levies to make up the difference between the processor price and the price it pays to provincial boards. These levies are included in producers' cost of production, and are passed on to consumers.

All EFC levies have to be approved by Council members. An important consideration for Council members is that the interests of consumers be taken into account in the setting of levies. The FPCC seeks to ensure that levies are proportionate to EFC's operating costs and the funding requirements of the IPP. Starting in late 2013,

FPCC indicated that it expected the agency to be more creative and aggressive in 2014, in exploring ways to reduce the costs of the IPP and the associated burden on table egg consumers. Options to reduce reliance on the IPP could include farmer contributions, structural changes to quotas, including determination of the natural overrun, and control of buyback and other significant costs. Throughout 2014-2015, FPCC maintained a dialogue with EFC on its proposals for strengthening IPP cost management. In particular, FPCC followed EFC's analysis of how changes in price spreads and the promotion of medium table egg consumption could contribute to lower costs.

The FPCC also continued discussions with EFC on the implementation of a service fee on birds put in production under increased allocations in 2014. This fee would contribute to the PIF, and reduce the need for levy increases. FPCC's concerns about maintaining the total EFC levy at an appropriate level colored relations with the Agency throughout the fiscal year, as demonstrated by EFC's and Council members' decisions:

1. At FPCC's December 2013 meeting, EFC presented its budget and financial projections for 2014. An associated amendment to maintain EFC's overall levy at 33.75 cents per dozen for 2014 was approved by Council members at the meeting, with a termination date of March 27, 2015.

2. In July 2014, the EFC Board proposed to amend EFC's overall 2014 levy, with the levy allocated to the PIF to be reduced by one cent per dozen eggs. After reviewing this proposed amendment in August 2014, Council members postponed their decision and asked EFC to reconsider the levy requirements given its current financial situation.

3. At its meeting of September 23, 2014, the EFC Board, after considering Council members' request, agreed to reduce the existing levy for 2014, by four cents per dozen eggs. Council members then approved this levy decrease at its September meeting, with the new levy approved for the October 5, 2014, to March 28, 2015 period.

4. At its November 13, 2014 meeting, the EFC Board approved an amendment to reduce the levy for 2015 by one cent per dozen. Deeming this one-cent levy decrease insufficient in light of a substantial projected year-end fund balance for EFC, Council members denied the agency's proposal at its early December meeting.

5. Finally, on December 18, 2014, EFC proposed a revised levy decrease of three cents for the PIF, which Council members approved on December 19. Table 1 summarises approved levy totals in force in the 2014-2015 year.

Table 1: 2014-2015 Total EFC Levy Amendments to the *Canadian Egg Marketing Levies Order*

Council Members Decision Date:	Total EFC Levy ($/dozen)	Details
Dec. 2013	0.3375	Levy to be maintained until March 27, 2015.
Sept. 2014	0.2975	Supersedes December 2013 amendment, and is approved for the October 5, 2014, to March 27, 2015 period.
Dec. 2014	0.2675	Supersedes September 2014 amendment, and applies to the January 25, 2015, to March 26, 2016 period.

Source: FPCC compilation

Table 2 provides a breakdown of EFC levy funds effective January 25, 2015.

Table 2: 2015 EFC Total Levy Breakdown

Fund	2015 Levy (approved Dec. 19, 2014)
	$/dozen
Pooled Income	$0.2340
Risk Management	$0.0010
Administration	$0.0300
Restricted Research	$0.0025
Total EFC Levy	$0.2675

Source: FPCC compilation

Amendments to Quota Regulations

Starting with an initial national quota allocation for the 2014-2015 period approved by Council members in December 2013, on five occasions EFC proposed amendments to the *Canadian Egg Marketing Agency Quota Regulations, 1986*. Three allocation amendments were approved by Council members, one after being temporarily postponed. Another was turned down, as detailed in Table 3 (next page).

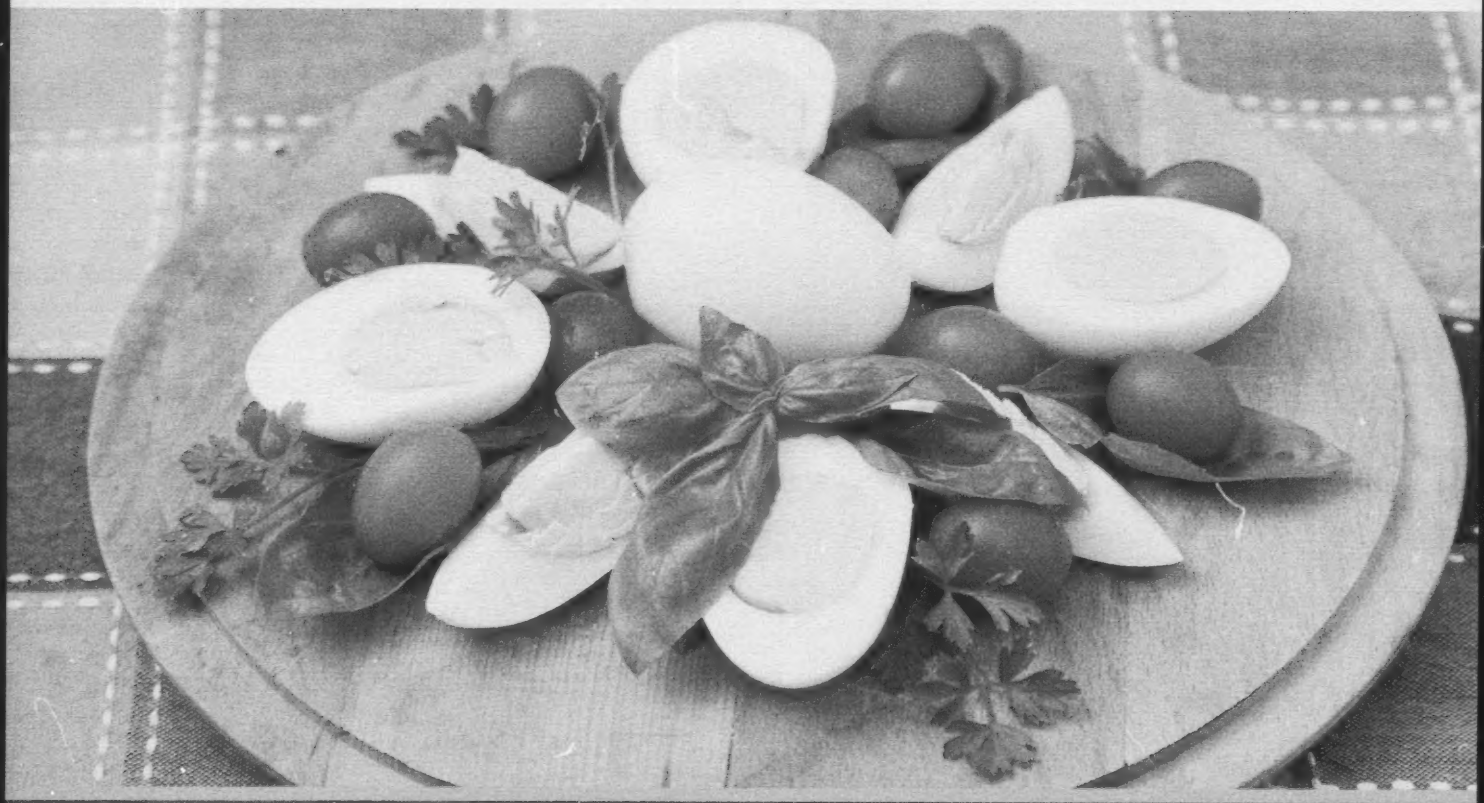


Table 3: EFC Proposed National Quota Allocation Amendments in 2014-2015

Council Members' Decision	Status	Period	Total Quota (million dozens)	% Increase (over 2013)	Comments
Dec. 12, 2013	Approved	Dec. 29, 2013 to Dec. 27, 2014	600.1	2.7%	Council members approved this request based on data indicating that table egg market demand had increased in 2013, and imports of table eggs and breaker eggs had risen.
Aug. 13, 2014	Decision Postponed	Aug. 10, 2014 to Dec. 27, 2014	610.5	4.3%	In July, based on new quota allocation calculations, EFC's Board approved a 1.7% increase over existing 2014 allocation. Council members were not satisfied the proposed increase was needed for the implementation of EFC's marketing plan, and postponed the decision on the amendment to allow further discussion of options for the egg industry.
Oct. 1, 2014	Approved	Aug. 10 2014 to Dec. 27, 2014	610.5	4.3%	Council members approved the national quota allocation based on evidence of shortages in egg supply in some markets, continued strong demand for table eggs and high levels of imports for both table eggs and eggs for breaking. Council members also expressed concerns that EFC's proposed allocation might lead to a significant surplus in the table market in some provinces and territories, and continued shortages in others.
Dec. 9, 2014	Not Approved	Dec. 28, 2014 to Dec. 26, 2015	618.6	-	Using a one-time ad hoc methodology, based on a Monte Carlo simulation where imports serve as a proxy of market shortage of table eggs, EFC proposed further increase to the national quota for 2014. Council members were not satisfied that EFC's proposed quota amendment was necessary for implementation of the Agency's marketing plan.
Dec. 19, 2014	Approved	Dec. 28, 2014 to Dec. 26, 2015	610.5	4.3%	EFC submitted to Council members a revised amendment for the quota allocation for 2015 that maintained the quota at the same level as in 2014.

Source: EFC and FPCC compilation

In its exchanges with EFC, FPCC outlined several continuing concerns. In particular, FPCC impressed upon EFC the need to control industrial products costs while meeting processors' needs, to accurately allocate eggs according to market needs, and to place birds already allocated.

Vaccine Totals

On October 1, 2014, Council members approved an amendment to the *Canadian Egg Marketing Agency Quota Regulations, 1986*, to maintain the existing quota of eggs for vaccine production for the period from December 28, 2014, to December 26, 2015. While the total vaccine allocation remained unchanged from the 2014 level of 13,335,840 dozen eggs, in 2015 there will be a reduction of 1,027,005 dozen in the vaccine eggs quota for Ontario to 2,661,750 dozen, and a corresponding increase in Quebec to 10,335,840 dozen.

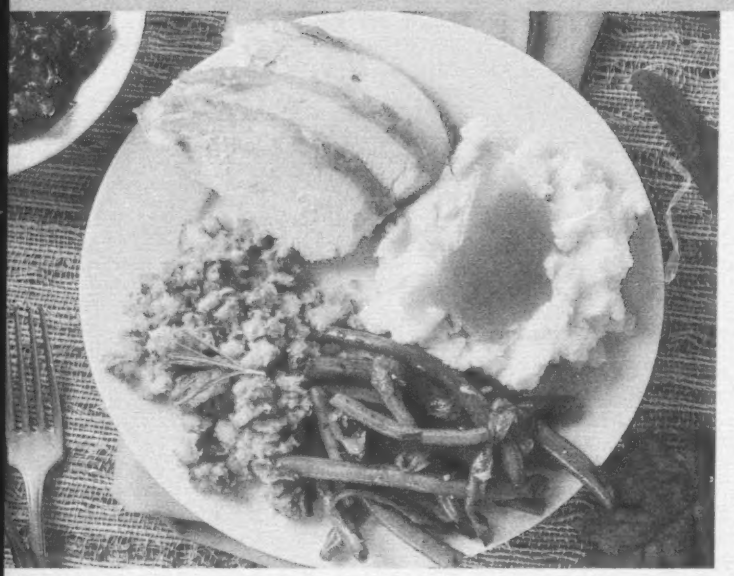
FPCC's Ongoing Priorities

During the year, Council member John Griffin and FPCC staff attended all of EFC's Board of Directors meetings and participated in meetings and teleconferences of EFC's Cost of Production Committee in an observer role.

Council members also met on several occasions with the EFC chairman and executive committee to discuss priority issues. Discussions touched, in particular, on FPCC's contention that EFC urgently needs to innovate to better supply the demand for eggs by processors and improve the financial sustainability of the IPP.

In March 2015, the Council members met with the EFC Board as a whole, to discuss a range of issues, such as the table allocation methodology and how best to supply the processing market.

THE TURKEY AGENCY



The Turkey Farmers of Canada

The Turkey Farmers of Canada (TFC) is the national agency responsible for the orderly production and marketing of turkeys and turkey meat in Canada. Legally known as the Canadian Turkey Marketing Agency, TFC was established in 1974 under the *Farm Products Marketing Agencies Act* (FPMAA) (legally known as the *Farm Products Agencies Act* (FPAA) since 1993) and further to an agreement among the Government of Canada, provincial agricultural ministers and turkey producers in member provinces.

Eight provinces are members of the agency: British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. Each province elects a representative to the agency's Board of Directors, which also includes three appointees from turkey industry stakeholders: two named by the CPEPC representing primary processors; and one, by the Further Poultry Processors Association of Canada (FPPAC) representing companies which use turkey as an ingredient in their products. TFC's Board of Directors meet quarterly to plan and manage turkey production and marketing. This mainly involves setting or adjusting production quota, and setting an annual levy to defray the costs of TFC's work. This levy is included in the price that consumers pay for turkey. Quota or levy amendments proposed by TFC require Council members' approval.

Canadian Turkey Value Chain

TFC turkey farmers purchase vaccinated, day-old turkeys (poults) from hatcheries. Poults are raised in climate-controlled barns. Once they reach market weight (between 11 and 17 weeks of age), and depending on market requirements, they are transported to processing plants. Hens (females) are normally grown for the whole bird market, while toms (males) are typically grown for the further processed market. At the processing plants, the birds are eviscerated to be sold fresh or in frozen form to the foodservice, restaurant or retail sectors, or to a processor for further processing (i.e. frozen dinners, sliced meats, meat pies, etc.).

FPCC's Work with TFC

Amendments to Levies Order

As approved by Council members in February 2014, for the period from April 1, 2014, to March 31, 2015, TFC maintained its long-standing national levy at 1.6 cents per kilogram (live weight). Over the same period, provincial levies, set by each provincial board, ranged from 1.40 to 3.25 cents per kilogram. The total levy (i.e. combined national and provincial levies) amounted to between 3 to 4.85 cents per kilogram across the eight provinces.

In February 2015, Council members approved TFC's proposed levy for the period from April 1, 2015, to March 31, 2016. Once again, the national levy was maintained at its existing level. As provincial levies have also remained unchanged, the total levy raised in each province in 2015 matches that of 2014.

Amendments to Quota Regulations

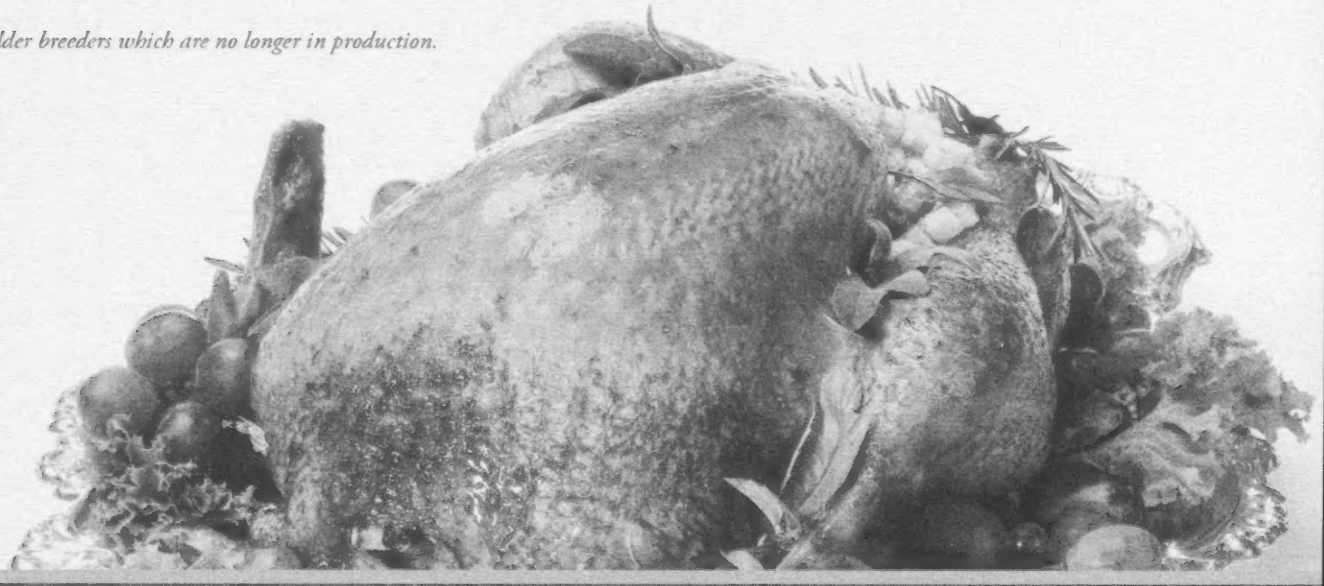
In the turkey sector, quota allocation covers production over a control period that runs from around May 1 to April 30. This control period is designed to bridge calendar years to include production planning for the peak festive markets of Thanksgiving, Christmas and Easter. TFC administers four quota allocation policies in partnership with the provincial boards:

1. National Commercial Allocation Policy: two separate quotas, one for production of whole birds; and another for birds produced for further processing, whose meat is used as an ingredient in other products.
2. Export Policy: quota allocated to replace birds already exported, and to allow sufficient production to cover planned exports (of processed, further processed or live turkey).
3. Multiplier Breeder Policy: quota for birds that are needed to produce turkey eggs and poults for the industry.
4. Primary Breeder Policy: quota of birds marketed as primary breeding stock[2].

TFC's Directors agree on an initial "global" quota for each control period. It equals the total value of all categories of quota set out in the four policies. TFC then requests Council members' approval of both this initial global quota and of each subordinate category of quota that it covers. Quota is allocated by province before the start of each control period through amendments to the *Canadian Turkey Marketing Quota Regulations*. As the production year advances, changes in stocks, production and sales may suggest that adjustments are needed to this global quota. When adjustments are required, TFC's Board requests Council members' approval of an amendment to the quota. Once the control period has ended and full production data is available, a final audit determines if any quota levels have been exceeded, so that adjustments can be made in the next control period and penalties charged for over-marketing, where warranted.

Council members gave their approval of an initial 2014-2015 global quota of 181.3 million kilograms (eviscerated weight) at its February 2014 meeting. In 2014-2015, Council members then approved four quota amendments requested by TFC, as itemized in Table 4 (next page).

[2] *Older breeders which are no longer in production.*



FPCC's Ongoing Priorities

Council member Mike Pickard and FPCC staff attended all of TFC's 2014-2015 Board of Directors' meetings and teleconferences, as observers. Over the year, the FPCC's Chairman spoke at a number of meetings both of the TFC Board and provincial boards. An annual meeting between Council members and the TFC executive was held in April 2014.

Through these regular contacts, FPCC engaged with TFC and the turkey industry on its priorities for the agency:

- Improving transparency through more detailed annual reporting;
- Exploring potential benefits of updating the Federal-Provincial Agreement for Turkey;
- Ensuring credible measurement and reporting of cost of production so that turkey producers receive a reasonable return on investment and;

Table 4: Approved Turkey Quota Allocations and Amendments in 2014-2015.

Quota Allocations	TFC Submission	FPCC Approval Date	Million kg (eviscerated weight)	Rationale
Initial quota 2014-15	Jan. 2014	Feb. 2014	181.3	Advance approval of the initial global quota for the 2014-15 control period.
1st quota amendment	Jun. 2014	Oct. 2014	181.6	TFC re-examined market data and approved a 0.3% increase to the initial quota, in response to higher sales at Easter, exports and multiplier breeder requirements.
2nd quota amendment	Aug. 2014	Nov. 2014	182.4	TFC requested a 0.4% increase once final data for the 2013-2014 control period were reconciled. The increase resulted from small changes in several provinces to export policy allocations.
3rd quota amendment	Jan. 2015	Feb. 2015	182.4	Authorized British Columbia to lease some of its quota to Alberta and Ontario due to the avian influenza outbreak in B.C. Global quota was unchanged.
Initial quota 2015-16	Nov. 2014	Mar. 2015	185.3	TFC requested a 1.6% increase to match growth in further processing, offset by decreases in multiplier breeder and export allocations. Whole bird and primary breeder allocations remained unchanged.

Source: FPCC compilation

- Examining the potential viability and usefulness of a promotion and research agency (under Part III of the FPAA), as a means to facilitate research and promote increased turkey consumption in Canada.

The FPCC also closely monitored a range of key market and technical developments affecting the turkey sector during the year. Some of these developments arose from TFC's policy considerations, for instance, its discussions on possible changes to the commercial quota allocation policy. Others touched on marketing considerations, such as the possibility of increasing supplies of turkey meat to further processors at a competitive price or, more pressingly, TFC's response to a supply shock arising from an avian influenza outbreak in B.C. in December 2014. In collaboration with provincial marketing boards and governments, and the Canadian Food Inspection Agency, TFC monitored and responded to the outbreak and its effects. Key response measures included the culling of birds, the leasing by other provinces of now unfulfillable B.C. quota, and an increase in imports to B.C. of frozen turkey from other parts of Canada, to meet festive season markets. TFC and the FPCC then worked to assess the national and regional implications of these responses for 2015-2016 quota allocations.

Finally, the FPCC followed the welcome transformation of TFC's Turkey Market Advisory Committee (TMAC) into a more technical group. Formerly comprised of TFC members and processors, TMAC is now made up of staff from TFC, CPEPC, FPPAC and an external consultant. The inclusive, working-level make-up of TMAC leads to consensual development of advice for the TFC Board, and to unbiased options for quota allocation setting and management.

THE CHICKEN AGENCY

The Chicken Farmers of Canada

The Chicken Farmers of Canada (CFC) is the national agency responsible for the orderly marketing of chicken in Canada. Originally known as the Canadian Chicken Marketing Agency, CFC was established in 1978 under the *Farm Products Marketing Agencies Act* (FPMAA) (legally known as the *Farm Products Agencies Act* (FPAA) since 1993) via an agreement of the federal government, provincial agricultural ministers, and chicken producers in member provinces.

Currently, all provinces but Alberta are members of the agency. Each elects a member to CFC's Board of Directors. The agency also has two representatives appointed by the Canadian Poultry and Egg Processors Council (CPEPC), one representative from the FPPAC, and one from Restaurants Canada (RC). The Board meets every eight weeks to discuss subjects such as quota allocation, on-farm food safety, animal welfare and regulatory issues.

In 2014-2015, Council Vice-Chairman Brent Montgomery and FPCC staff attended all CFC's Board of Directors meetings as observers. The Chairman and Vice-Chairman of the Council also met on several occasions with CFC's chair and executive committee to discuss priority issues, especially consideration of comparative advantage of production.

Canadian Chicken Value Chain

The chicken value chain is essentially organized as follows: CFC chicken farmers purchase day-old chicks that have been vaccinated to prevent illness from hatcheries. The chicks are placed in climate-controlled trucks and delivered to chicken farmers. After five or more weeks in the barns, and depending on market requirements, the chickens are transported to processing plants. At the processing plants, the chickens are eviscerated and sold to the foodservice, restaurant and retail sectors, or to a processor for further processing (i.e. frozen dinners, chicken nuggets, meat pies, etc.).

FPCC's Work with CFC

Amendments to Levies Order

Provincial marketing boards and CFC each charge levies to chicken producers to defray their respective administrative and operating costs. National and provincial levies are combined into a single levy charged by CFC on interprovincial and export marketing. Provincial boards conduct actual levy collection, and Council members' approval is required for any changes in national or provincial levies.

In 2014-2015, CFC maintained its national levy at 0.53 cents per kilogram (live weight), a level which Council members deemed sufficient to cover CFC's administrative and marketing costs. Council members also approved an amendment extending the expiry date of the *Canadian Chicken Marketing Levies Order*, from March 31, 2015, to March 15, 2016.

FPCC's Levy Committee approved a single provincial levy amendment from Alberta, whose producers, like those in all provinces, still fall under the *Chicken Farmers of Canada Proclamation*.

Amendments to Quota Regulations

CFC sets quota allocation for chicken production every eight weeks. This means that CFC makes six amendments to the *Canadian Chicken Marketing Quota Regulations* over the course of a year. Both the total and provincial allocations set by CFC and approved by Council members grew modestly in 2014-2015, with domestic allocation increasing by 1.2% over the previous year, and the market development allocation by 1.56%, for a total allocation increase of 1.8%.

Table 5: 2014-2015 Quota Periods Approved by Council members

Quota Periods	From	To	Total Allocation (kg, live weight)
A-125	July 13, 2014	Sept. 6, 2014	224,736,840
A-126	Sept. 7, 2014	Nov. 1, 2014	223,260,071
A-127	Nov. 2, 2014	Dec. 27, 2014	221,437,075
A-128	Dec. 28, 2014	Feb. 21, 2015	222,514,811
A-129	Feb. 22, 2015	Apr. 18, 2015	228,892,370
A-130	Apr. 19, 2015	June 13, 2015	236,100,779

Source: FPCC compilation

Complaints Regarding the A-127 Allocation

In August 2014, FPCC received complaints from CPEPC, FPPAC and RC concerning the domestic allocation made by CFC for allocation period A-127 (November 2 to December 27, 2014). Following discussions with all parties, the Chairman of the Council agreed that the complaints should be combined.

The complainants' main concern was that the disputed allocation could disrupt markets in 2015. They also expressed concerns about the quality of export data, timing differences between imports and subsequent exports, and both CFC's Import for Re-Export Program and its Duty Deferral Program. Based on different assumptions with respect to export and import data, they contended that domestic disappearance of chicken in first half of 2014, as compared with the first six months of 2013, could have grown by 2.7 % to 3.2 % (less than the 4.8 % increase projected by CFC).

Based on the findings of the Complaint Committee, Council members ruled that the chicken market was likely to be appropriately supplied for the A-127 period. They therefore accepted the committee's recommendation to dismiss the complaint. FPCC has since agreed with the CPEPC, FPPAC, RC, and CFC to form a working group to examine other data issues raised during the complaint process.

FPCC's Support for a Long-term Allocation Agreement for Chicken

Alberta's Non-Participation in the Federal-Provincial Agreement for Chicken (FPA)

In 2014, CFC's Board sought a solution for a long-standing interprovincial disagreement about how to incorporate the concept of differential growth, also known as comparative advantage of production (CAP), into the national quota allocation process.

CAP or differential growth, as mandated under the FPAA, describes a situation where provinces are allocated different growth shares of domestic quota, based on a measure of provincial competitiveness. Given demographic change and diverse economic development across provinces, this principle has increasingly been separated from existing quota allocation methodology, which is based on maintaining provinces' historical market shares. Unsurprisingly, some provinces have come to believe that their allocation is no longer reflective of their market needs or the chicken industry as a whole. Despite determined efforts by CFC and the provincial chicken boards to develop alternative allocation methodologies, until 2014 none garnered the support of all provincial chicken boards. Alberta therefore withdrew from the FPA at the end of 2013.

To remedy this destabilizing situation, CFC has worked tirelessly over the past 18 months to negotiate a long-term agreement with provincial boards that would see quota partly allocated in line with competitiveness measures.

As of the release of this report, Alberta has yet to rejoin the FPA. However, by employing a methodology that includes a measure of differential growth, the new agreement offers strong encouragement for it to do so in 2015. Alberta can re-enter the FPA for chicken once it is signed by Alberta's Minister of Agriculture and Rural Affairs, its Minister of International and Intergovernmental Relations, the Alberta Chicken Producers (ACP), and the province's supervisory board – the Alberta Agricultural Products Marketing Council. As always, under the new methodology, FPCC Council members will still have to be satisfied that every allocation presented to them is necessary for the implementation of CFC's marketing plan.

Given that a great deal of CFC's work in 2014 involved mediating and promulgating the new agreement, to understand FPCC's oversight work, it may be helpful to relate in greater detail CFC's activities in fostering agreement, starting with the adoption of a temporary six-period chicken allocation agreement.

Temporary Six-Period Chicken Allocation Agreement

Interprovincial disagreement on how to reform quota allocation methodology centred on differences in the relative rate of future growth of quota in member provinces. For some provinces, incorporating a measure of competitiveness might imply forgoing a future opportunity to increase production. Arriving at a mutually agreeable solution required taking measures to balance the needs of provinces.

As a first step, CFC Directors opted to allocate quota based on a temporary six-period (i.e. December 2013 to November 2014) chicken allocation agreement, as an exceptional measure. This temporary agreement included a provision that the agency, provincial boards and industry stakeholders would work with a mediator to devise a long-term differential growth model. As the temporary agreement allowed for allocations consistent with CFC's marketing plan, it received Council members' approval.

Although Alberta was no longer a signatory to the FPA for chicken, the ACP signed a service agreement with CFC under which the ACP agreed to respect CFC's allocation decisions, pay the national levy and participate in CFC meetings. The service agreement contained a provision allowing the ACP to opt out of the temporary six-period chicken allocation agreement.

The mediation process terminated without success in early 2014, and as a result, the ACP opted out of the temporary six-period chicken allocation agreement on

February 14, 2014. Alberta set its own allocation for periods A-125 and A-126 (i.e. from July to November 2014).

Preliminary Long-term Allocation Agreement

In early July 2014, a preliminary long-term allocation agreement was arrived at for 66 allocation periods. Alberta adhered to and agreed to respect allocations under this preliminary agreement. This preliminary agreement allowed CFC to set allocations for the A-127, A-128, and A-129 periods (covering November 2, 2014, to April 18, 2015). As with the temporary six-period chicken allocation agreement, Council members were satisfied that each allocation under the preliminary long-term allocation agreement was required for the implementation of CFC's marketing plan.

Memorandum of Understanding on a Long-term Allocation Agreement

On November 20, 2014, an agreement on long-term allocation was formalized through a memorandum of understanding (MOU) between CFC and provincial commodity boards. It received unanimous support from the CFC Board. This long-term allocation agreement required two major provisions to reconcile producers in different provinces to the new quota allocation methodology. The first provision involved allocating an initial 200,000 kilograms to Ontario before national quota was shared among provincial boards. Ontario negotiated this "discrete" number in view of its position as the largest chicken-producing province (and the one with the greatest number of primary and further processors). The long-term agreement states that Ontario will be allocated 200,000 kilograms per period for the A-128 to A-132 allocations (December 28, 2014, to October 3, 2015). Every six periods, CFC will recalculate the amount to be distributed to Ontario, with the goal of allocating 14,184,786 kilograms by the end of the 66 periods. However, this volume will not be allocated if the allocation is set at or below the national allocation base. Nor will Ontario receive the full discrete volume if during any allocation another province's allocation would be set lower than its provincial base.

The second provision is the Atlantic Canada Safeguard Agreement. This limits the volume of allocation that the four Atlantic Provinces would lose when comparing the long-term allocation agreement with the pro rata methodology (i.e. "historical share") previously employed.

If the national allocation is set at or below base, the distribution among provinces reflects the provincial shares of the national base allocation for that period.

If the national allocation is set above base, the remaining allocation above base is to be allotted according to a formula based on factors, as shown in Table 6 below:

Appeals by Processors in Three Provinces to Provincial Supervisory Boards

Some processors in British Columbia, Saskatchewan and Manitoba filed appeals with their respective provincial supervisory boards about the signing of the MOU for the Long-term Chicken Allocation Agreement by provincial commodity boards. These processors contended the MOU would affect them adversely while unduly favouring Ontario processors through the discrete allocation Ontario is to receive for the duration of the MOU.

Table 6: Factors in Allocating Additional Quota Above the Base

Factor	Percentage	Details
Pro-rata	45.0%	Extrapolation of historical market shares.
Supply share	5.0%	Threshold of 90% production/population ratio.
Population growth	7.5%	Growth in provincial population.
Income-based GDP	7.5%	Standardized with market share.
CPI	7.5%	Standardized with market share.
Farm Input Price Index	10.0%	Standardized with market share.
Quota Utilization variance	7.5%	Based on six-month periods.
Further processing	10.0%	Based on a province's share of the total number of federally registered establishments, and on the provincial share of the most recent 24-month average frozen inventories for the "other further processed chicken" category.

Source: CFC

FPCC's Ongoing Priorities

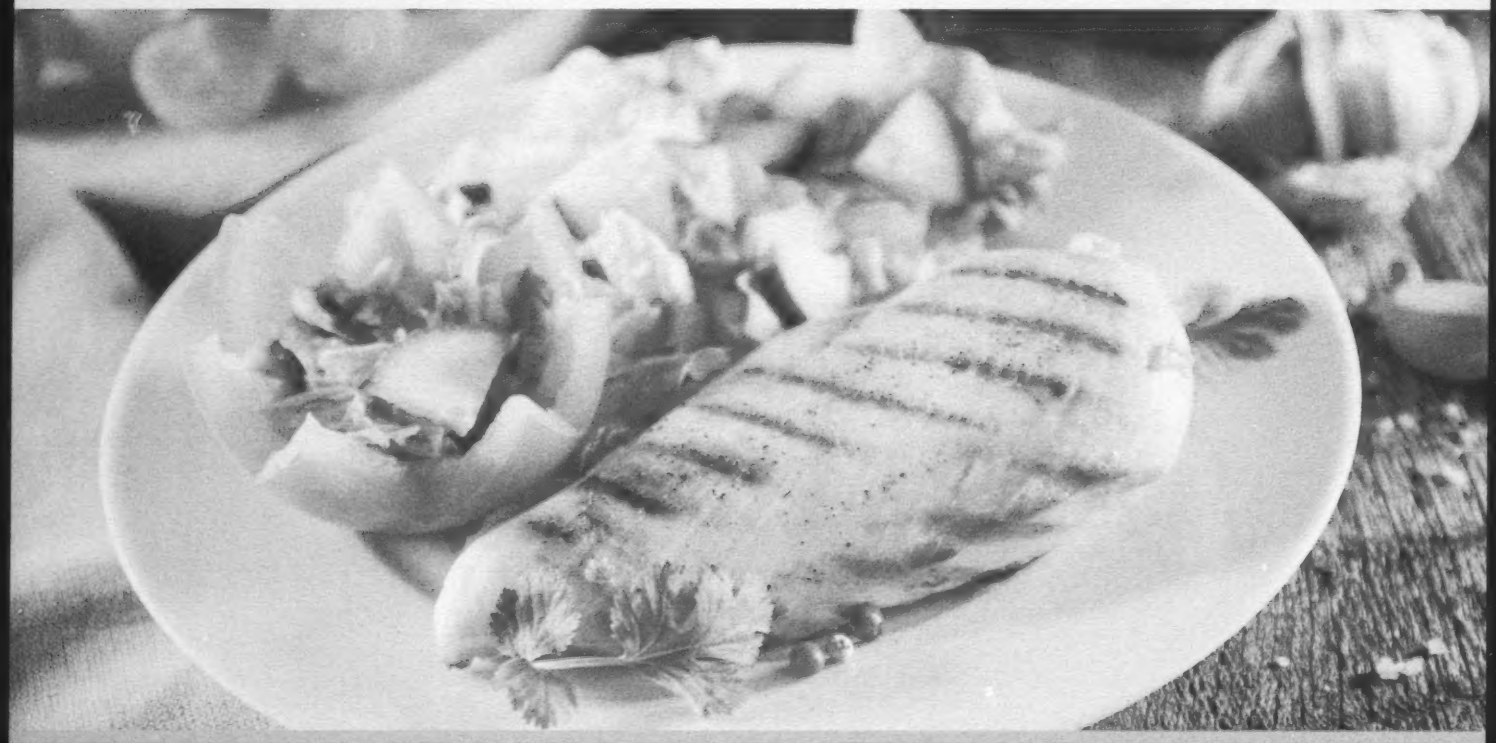
Amendments to Schedule "B" of the FPA – the Operating Agreement

CFC has recognized that the MOU for a Long-term Chicken Allocation Agreement will need to be accompanied by amendments to Schedule "B" of the FPA (the Operating Agreement) and, in January 2015, struck a committee to draft the necessary amendments. These amendments will require the unanimous consent of provincial supervisory boards, provincial commodity boards and CFC. Prior to implementation, FPCC will review amendments to the Operating Agreement to determine whether they require approval of the Governor in Council. Although the FPCC is not a signatory to the FPA for Chicken, the FPCC must nonetheless review the amendments to ensure that they are consistent with section 9.03 of the FPA for chicken.

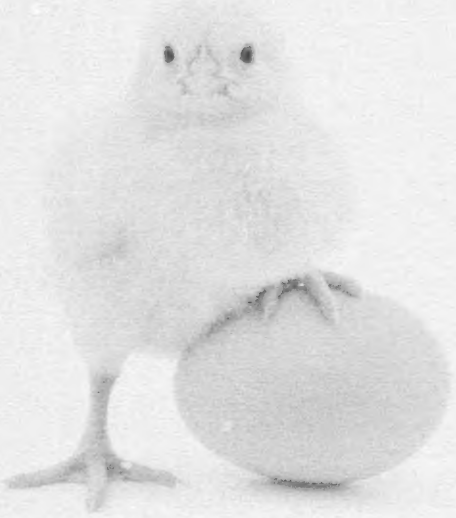
Specialty Chicken Production

At its November 2013 meeting, CFC approved the *Specialty Production Policy* with the stated objective of providing "a national framework administered by CFC within which provincial commodity boards can develop and manage their provincial specialty chicken programs to facilitate the growth of specialty chicken production and processing". The general aim is to "to facilitate the planned production and marketing of specialty breeds of chicken which do not directly compete with mainstream chicken production and marketing"[3]. The first speciality production allocation was set for period A-126 (September 7 to November 1, 2014). Council members' approval is required for this specialty breed allocation, as for any other.

[3] *Section 2.2 of the Specialty Production Policy*



THE HATCHING EGG AGENCY



The Canadian Hatching Egg Producers

The Canadian Hatching Egg Producers (CHEP) is the national agency responsible for the orderly marketing of broiler hatching eggs in Canada. Originally known as the Canadian Broiler Hatching Egg Marketing Agency, CHEP was established in 1986 under the *Farm Products Marketing Agencies Act* (FPMAA) (legally known as the *Farm Products Agencies Act* (FPAA) since 1993), further to an agreement among the Government of Canada, provincial agricultural ministers, and broiler hatching egg producers in member provinces.

Six provinces are members to the Federal-Provincial Agreement for Broiler Hatching Eggs: British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec. Producers in each member province elect a representative to sit on CHEP's Board of Directors. Two additional representatives are appointed by the Canadian Hatchery Federation (CHF).

CHEP is subject to regular FPCC oversight. In 2014-2015, Council member Tim O'Connor, supported by FPCC staff, attended all of CHEP's Board of Directors meetings as observers.

Canada's Hatching Egg Industry

Fertilized broiler hatching eggs are sent to hatcheries where they are placed in incubators to hatch 21 days later as broiler chicks. The hatcheries sell these chicks to chicken farmers, who grow them into chickens for human consumption.

FPCC's Work with CHEP

Amendments to Levies Order

CHEP collects two levies to defray its administrative and operating costs: a national levy charged to all hatching egg producers in the regulated system; and a non-signatory levy charged to any party that markets broiler hatching eggs from an unregulated area into a regulated area. In 2014-2015, Council members twice approved CHEP's amendments to the *Canadian Broiler Hatching Egg Marketing Levies Order*. In June 2014, existing levies were extended; in early February 2015, both levies were increased, as shown in Table 7:

Table 7: 2014-2015 Amendments to the *Canadian Broiler Hatching Egg Marketing Levies Order*

Amendment Date:	National Levy ($/broiler hatching egg)	Non-Signatory Levy ($/broiler hatching egg)	Details
May 2014	0.0029	0.01112	Extension of both levies (unchanged) from June 22, 2014, to June 22, 2015.
Feb. 2015	0.0032	0.01126	Increase in the national levy by $0.0003 and in the non-signatory levy by $0.000136 (per broiler hatching chicken). Effective March 29, 2015 (superseding the May extension), and expiring on June 26, 2016.

Source: FPCC compilation

After reviewing the amendments to the Levies Order, Council members were satisfied that each increase was necessary for the implementation of CHEP's marketing plan.

Amendments to Quota Regulations

Within the broiler hatching egg market, supply comes from two sources: domestic production and imports from the U.S. Under a 1990 bilateral agreement, pursuant to Article XXII of the 1947 *General Agreement on Tariffs and Trade* (GATT), U.S. broiler hatching egg producers are granted access to the Canadian market in amounts equal to 21.1 percent of the anticipated domestic production for the current year. This access is split into separate commitments for broiler hatching eggs and chicks, 17.4 and 3.7 percent respectively.

Domestic production levels are established by quota allocations. Every year, at its July board meeting, the agency sets two allocations: the final allocation for the current year; and a preliminary allocation for the coming year. Further to verification that allocations have been respected (i.e. whether over-marketing penalties should be assessed), a final allocation is set for hatching egg production for the current period. The ensuing preliminary allocation gives an indication of the total production of hatching eggs needed for the chicken sector in the coming year (including a breakdown by province).

At the December 2014 meeting, Council members reviewed the 2014 final and 2015 preliminary allocations. Council members reconfirmed that both amendments were necessary for the implementation of CHEP's marketing plan, as shown in Table 8 below.

FPCC's Ongoing Priorities

Review of Schedule "B" *of the Federal-Provincial Agreement (FPA)*

In early 2014, Quebec and Alberta submitted letters to CHEP requesting a review of Schedule "B" of the FPA. Schedule "B" outlines the allocation methodology employed by CHEP in allotting quota to provinces. CHEP hired a consultant to review its allocation process. On receipt of the consultant's report, CHEP's Board of Directors asked CHEP staff to review it and provide additional analysis for the Directors' consideration. The Directors have since taken the report and staff recommendations under advisement, and continue to review the allocation system to determine if improvements should be made. It is anticipated that CHEP will provide an update on its chosen allocation process at its upcoming July 2015 meeting.

Table 8: 2014-15 Amendments to the *Canadian Hatching Egg Producers Quota Regulations*

Council Members' 2014/2015 Allocation Approvals	
Allocation Type	Number of broiler hatching eggs
2014 final allocation	630,760,178
2015 preliminary allocation	646,724,016

Source: FPCC compilation

Quebec-Ontario Broiler Chick Shipment Negotiations

In recent years, Quebec hatcheries have shipped approximately nine to 10 million broiler chicks annually to Ontario. This is a significant increase from the two million broiler chicks that Quebec hatcheries shipped to Ontario in 1997. Ontario has expressed a concern that the large volume of chicks from outside the province is negatively impacting its broiler hatching egg producers. CHEP and CHF agreed to investigate the issue and met with representatives from Ontario and Quebec in March and June 2014.

The March meeting was held in Toronto and led to an agreement to meet again in June 2014 during the Canadian Poultry and Egg Processors Council's convention. At the June meeting, representatives from Ontario and Quebec failed to reach an agreement but agreed on pursuing further internal discussions with their respective boards. Subsequent talks in November 2014 and January 2015 failed to resolve the issue. Some of CHEP's members have suggested that a mediator may be required to help Quebec and Ontario reconcile their points of view.

THE BEEF AGENCY

Canada Beef

The Canadian Beef Cattle Research Market Development and Promotion Agency was established in 2002 under Part III of the *Farm Products Agencies Act* (FPAA), when its proclamation was registered. In July 2011, the agency merged with the Canadian Beef Export Federation (CBEF) and the Beef Information Centre (BIC). It now operates under the name of Canada Beef.

The agency's Board of Directors is composed of cattle producers, importers, beef processors, and other downstream stakeholders.

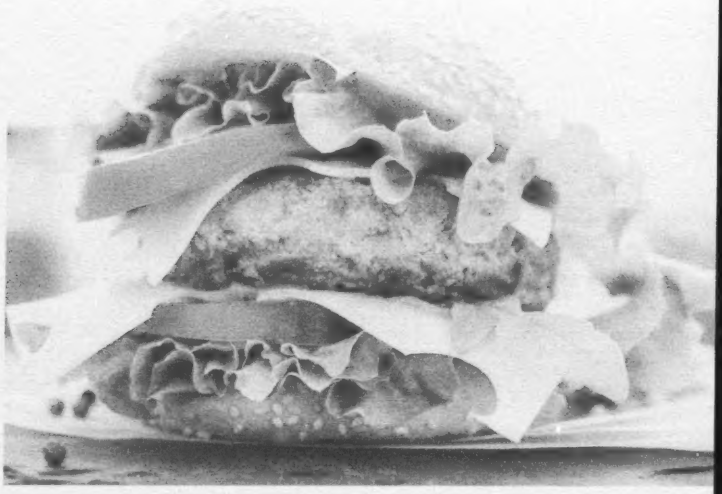
Canada Beef has authority to promote the marketing and production of beef cattle, beef and beef products for the purposes of interprovincial, export and import trade, to conduct and promote research activities related to beef and beef products, and to finance promotion and research plan. Every person who sells beef cattle in interprovincial trade must pay the agency a levy of $1 per head of beef cattle sold. Each importer must pay the agency $1 per head of imported beef cattle or the equivalent of $1 per head for imported beef and beef products.

FPCC's Work with Canada Beef

Amendments to Levies Order

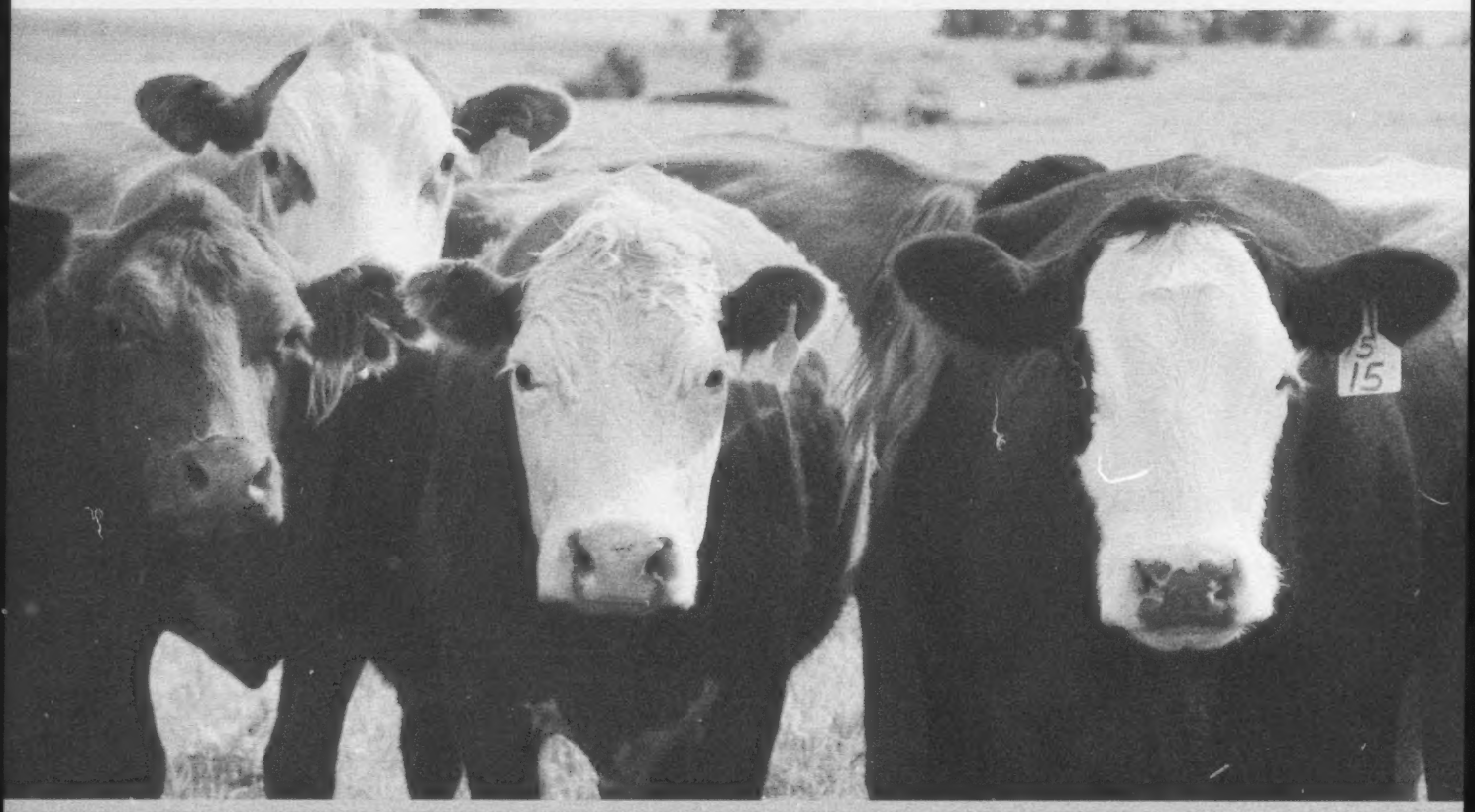
At its April 2014 meeting, Council members approved amendments to the *Beef Cattle Research, Market Development and Promotion Levies Order* that extended the expiry date from June 28, 2014, to June 28, 2015. The value of the levy was maintained at $1 per head for cattle traded interprovincially, and at $1 per head equivalent on imported cattle, beef and beef products.

The national levy and the provincial levies must be combined to ensure that provinces collect their levies on interprovincial and export marketing, and that Canada Beef collects its levy on intra-provincial marketing. The national levy amount approved by Council members is added to the provincial levy amount to form a total levy collected on beef sales. Two levy amendments, one each from Manitoba and Ontario, were submitted and approved between April 2014 and March 2015.



FPCC's Ongoing Priorities

In 2014-2015, FPCC staff attended a number of agency meetings as observers. The Chairman, Council member Debbie Etsell, and FPCC staff also met the agency's Chair, its Governance Committee chair, and staff, to discuss amendments to the agency's proclamation to reflect the Board's structure following the merger with BIC and CBEF in 2011.



Other FPCC Activities

Left to right: *Laurent Pellerin, Nathalie Vanasse* and *Marc Chamaillard.*

Regulatory Affairs

Over the last fiscal year, the FPCC kept the office of the Minister of Agriculture and Agri-Food informed on regulatory matters related to the administration of the *Farm Products Agencies Act* (FPAA) and the *Agricultural Products Marketing Act* (APMA).

The FPCC provides technical regulatory advice and assistance to national agencies, supervisory boards, and provincial commodity boards in relation to these two acts. The FPCC also acts as a liaison among these agencies and several departments and agencies of the Government of Canada that are involved in regulatory matters, such as the Department of Justice Canada, the Treasury Board of Canada Secretariat, and the Privy Council Office.

In its capacity as administrator of the APMA, the FPCC has been collaborating closely with Agriculture and AgriFood Canada (AAFC) as it conducts a comprehensive administrative review of the APMA. In 2014-2015, this review progressed as planned, with the cooperation and support of 84 provincial agricultural producer agencies.

The FPCC also facilitates business processes and provides technical advice to the Parliamentary Standing Joint Committee for the Scrutiny of Regulations.

The integrity of FPCC's regulatory functions is a matter of public interest. Providing the public with clear and up-to-date information on FPCC's regulatory activities is essential for transparent regulation. Without FPCC's scrutiny and assurance of the proper application of regulations to regulated agricultural industries, improper performance of regulatory functions could hinder the regulatory process established by the Treasury Board for the whole of government, as well as create unwarranted delays in the entry into force of amendments to orders and regulations affecting marketing, promotion and research levies as well as marketing quota allocations.

Canada's regulatory system has long been recognized internationally as a mature, well-functioning system. The *2015–2017 Forward Regulatory Plan* sets out the Government of Canada's targets for ensuring greater transparency and predictability with respect to regulations. The FPCC provides regular updates to its portion of this overarching plan as its operating environment evolves. Details about these updates are now posted on FPCC's website, on the Acts and Regulations page.

Other FPCC Activities

Request for Agency Status Under Part II

The past year saw the conclusion of the FPCC's and Government of Canada's response to a 2012 proposal from the Pullet Growers of Canada (PGC) for the establishment of a national marketing agency for pullets, under Part II of the FPAA. After receiving the request, the FPCC Chairman appointed a panel to inquire into the merits of the proposal. The panel held public hearings and made a formal recommendation to members in late 2013. Council members adopted the

panel's recommendation and, in early 2014 the FPCC provided its recommendation to the Minister, as required under paragraph 7(1) (a) of the FPAA. After careful consideration, in May 2014, the request was turned down.

Management of the PGC's request allowed the FPCC to renew its procedures for public hearings and processing requests for the establishment of marketing agencies. As this request was the first submitted in many years, the FPCC enhanced its corporate knowledge and expertise in regards to its statutory responsibilities.

Promotion and Research Agencies

Regulatory Framework

In 1993, the FPAA was amended to include Part III, which states that the Governor in Council may, by proclamation, establish an agency for the promotion and research of a farm product where it is satisfied that a majority of producers and importers, when applicable, support such action. A proclamation is a federal regulation that outlines the powers granted to an agency and how the agency is to be constituted (i.e. membership, means of appointment, location of the agency's head office, etc.).

The FPAA and Powers of a Promotion and Research Agency

A PRA created under the FPAA has the authority to collect a levy on national production, on exports, and on imports of the regulated product when conditions of national treatment are met. A PRA has no authority to regulate production but it can develop a promotion and research plan funded by the collection of the levy described above.

As set out in section 41 of the FPAA, the object of an agency is to promote a strong, efficient and competitive industry for the regulated product. This may be accomplished by promoting its sale and consumption, and by conducting research activities.

Request for Agency Status Under Part III

The FPCC continued to process two requests for the creation of PRAs, one from the Raspberry Industry Development Council (RIDC), another from the *Association des producteurs de fraises et framboises du Québec*. The Chairman of the FPCC established a panel consisting of two Council members to inquire into the merits of each proposal as per paragraph 7(1) (a) of the FPAA. Public hearings were held, respectively, in Abbotsford and Ottawa in October and November 2013, and in Vancouver and Montreal in April 2014. The Panel reported its findings in regard to each proposal to Council members.

Following these applications from the strawberry and raspberry industries, new groups initiated work, with technical guidance from FPCC, on the development of their own PRA requests. Notable industry groups interested in the PRA model include the Chicken Farmers of Canada (CFC) and the Canadian Pork Council, which has commissioned its own feasibility study into the establishment of a pork PRA. It has also organized interprovincial discussions on the merits of a national levy for funding pork research and promotional activities. The Potato Farmers of Canada has similarly examined the benefits of a PRA for potatoes.

Studies and Analysis

Agencies Annual Reporting Practices

Building on a previously developed set of best practices and recommendations for the improvement of the annual reporting practices of agencies, FPCC has developed a matrix of indicators by which to measure and support agencies in improving their annual reporting practices.

Historical Review of Part III of the FPAA

Part III of the FPAA, which allows for the creation of PRAs, came into force more than 20 years ago. Recent applications from raspberry and strawberry growers for the establishment of PRAs have stirred interest and inquiry into the original arguments put forward by policy-makers for the addition of Part III. In early 2015, FPCC launched a targeted historical review of these aims and the intended role for PRAs. Better understanding of the intentions for PRAs by those who framed Part III will help FPCC guide and support industry groups in shaping them.

Review of Agency Accountability

Over the last decade, the Government of Canada has sought to formalize standards and practices for public accountability, even as corporate and not-for-profit accountability measures have gained sway. The agencies and PRAs, as public interest agencies, are doubly accountable with multiple reporting lines to public bodies, Parliament, and to their not-for-profit membership. In 2014-2015, the FPCC began to

review agency accountability to detail the extent to which agencies are held accountable and by whom. By examining and comparing the specific accountabilities of each regulated agency, the review is intended to enable FPCC and the agencies to clarify accountability reporting lines.

Circulating Guidelines on Cost of Production

Pricing is one of the three pillars of supply management. Proper cost of production (CoP) practices serve to ensure that, on average in any one year, producers are able to cover their costs and realize a reasonable return without damaging the interests of processors or consumers.

In 2014, the FPCC continued to provide technical assistance to the marketing agencies to enable them to refine and improve their methodologies for assessing and reporting on production costs. This analytical work was pursued in three ways. First over the last quarter of the fiscal year, FPCC shared monitoring guidelines with each of the agencies in preparation for active promotion of the guidelines to the agencies in the coming fiscal year. Second, FPCC entered into detailed discussions with EFC on the requirements and new standards for effective CoP reporting. Third, FPCC launched an exploration of alternate ways to assess production costs in specific industries, for instance by using data from AAFC's Farm Financial Survey and combining it with tax filer data. In doing so, the FPCC aims to bolster the agencies' work in improving their CoP reporting by providing plausible independent comparators.

Left to right: *Bill Edwardson, Steve Welsh* and *Reg Milne.*

Comparative Advantage of Production

Provincial production levels for eggs and poultry in Canada are regulated through a quota system. Changes in domestic market demand conditions are accommodated through adjustments in the amount of quota available. Under the FPAA, allocation of additional quota (also called over-base quota) to accommodate increased market demand is required, among other conditions, to reflect comparative advantage of production between provinces. Yet, for a long time, comparative advantage of production was consistently underemphasized in allocation-setting by the agencies. To remedy this, the agencies and FPCC have been working for several years to arrive at allocation models based on comparative advantage that are mutually agreeable to all production interests in the supply management system. In 2014-2015, FPCC staff assisted CFC, in particular, to further refine its allocation methodology to better reflect the principle of comparative advantage.

Tariff Walls Feasibility Study

Import controls are one of the three pillars of Canada's supply management system, and FPCC monitors these import controls as it makes decisions on quota allocation, levies, and the conformity of agency policies to the FPAA. While tariffs imposed on supply-managed goods are substantial, it can be difficult to ascertain their effectiveness, as other factors, such as exchange rates, Canada-U.S. price gaps, and transportation costs, also determine the effectiveness of import controls. Accordingly, the FPCC has commissioned a study on the feasibility of measuring the effectiveness of Canada's tariff walls for the regulated products overseen by the FPCC. The study assesses data sources and proposes a methodology for monitoring the effectiveness of import controls on both a historical and ongoing basis.

Communications

FPCC had busy and productive communication activities this past year. In 2014-2015, the FPCC continued to improve its outreach activities and reflect on its communications approaches, with a view to adopting ever more effective means to manage its business and relationships with stakeholders.

Last year, five issues of the *FOCUS Newsletter* were produced and distributed. The newsletter is a tool that regularly updates stakeholders on Council members' decisions and FPCC business content, news, announcements and publications by federal departments and other organizations. It is sent out electronically and posted on the FPCC website.

In 2014-2015, the FPCC restructured and updated its Internet and intranet web pages to deliver more user-friendly content. It worked with a specialized web editor to improve some of its pages to provide the best information and value to its users.

In addition, as part of ongoing efforts to increase transparency, the FPCC launched two new sections on its website, Council Members' Decisions and Complaints. The page on Council Members' Decisions contains decision letters sent out following FPCC meetings. The section on Complaints provides information on how to file a complaint, generic guidelines and documents associated with complaints

received and processed, such as the complaint submission, correspondence, decisions, and other related materials.

Following this redesign of the FPCC website, several web pages received many more page views and Internet "hits". Some of the most visited pages included the *FOCUS Newsletter* section, the Public Hearings section, Complaints, and Council Members' Decisions.

In the near future, FPCC web content will migrate to the new Canada.ca Internet site, launched on December 18, 2013. The move to a single Government of Canada site is a four-year process that will merge 1,500 individual federal government department and agency websites into one, providing easier access to information for Canadians. Information will be organized by themes, topics and tasks most requested by the public, rather than by department or agency.

Left to right: *Mike Pickard, Tim O'Connor, John Griffin* and *Debbie Etsell.*

Glossary

AAFC	Agriculture and Agri-Food Canada
ACP	Alberta Chicken Producers
APMA	*Agricultural Products Marketing Act*
B.C.	British Columbia
BIC	Beef Information Centre
CAP	Comparative Advantage of Production
CBEF	Canadian Beef Export Federation
CFC	Chicken Farmers of Canada
CHEP	Canadian Hatching Egg Producers
CHF	Canadian Hatchery Federation
CoP	Cost of Production
CPEPC	Canadian Poultry and Egg Processors Council
CPI	Consumer Price Index
EFC	Egg Farmers of Canada
FPA	Federal-Provincial Agreement
FPAA	*Farm Products Agencies Act*
FPCC	Farm Products Council of Canada
FPPAC	Further Poultry Processors Association of Canada
GATT	*General Agreement on Tariffs and Trade*
GDP	Gross Domestic Product
GIC	Governor in Council
IPP	Industrial Products Program
PIF	Pooled Income Fund
PRA	Promotion and Research Agency
TFC	Turkey Farmers of Canada